

## **CHAPTER 9 AUDITS AND RECORDKEEPING**

### **9.000 Authority and Frequency of Audits**

California Vehicle Code (CVC) Section 8057(b) authorizes the department to audit fleet records of apportioned registrants to ensure the accuracy of the reported distance (mileage), vehicle cost and weight information, and fee payments.

Under IRP Section 1600, "Frequency of Audits," the base jurisdiction shall audit the apportioned registration applications and supporting documents of registrants based in that jurisdiction as to the authenticity of distance figures derived from operational records and other registration information.

Under IRP Audit Procedures Manual Section 100.3, the base jurisdiction may audit individual registrants several times during the IRP peer review period, and each audit may cover one registration year to four registration years.

### **9.005 Joint Audits**

IRP Section 1606, "Joint Audits," allows audits of any registrant by multiple jurisdictions. Upon completion of the joint audit, the base jurisdiction is responsible for issuing the audit report, collecting and distributing the resulting fee adjustments, and resolving any disagreement with the audit findings.

### **9.010 Purpose of Audits**

Audits are necessary to ensure: (1) the accuracy and integrity of information reported on the apportioned registration applications; (2) compliance with provisions of the IRP and jurisdictional statutes; and (3) proper payment of apportioned fees to all affected jurisdictions.

### **9.015 Audit Standards**

Audits are conducted in a professional manner with the results clearly documented, following the IRP agreement, the IRP Audit Procedures Manual, and the generally accepted government auditing standards.

### **9.020 Audit Location**

Audits are performed at DMV Headquarters in Sacramento (in-house audits) or at the registrants' or the designated agents' business locations where operational records are maintained and made available for examination (field audits), as determined by the department.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.025 Audit Notification

In accordance with IRP Audit Procedures Manual Section 601 and CVC Section 8057(b), the department will provide a **30-day** notice to the registrant prior to conducting the audit. For just cause, notification requirements may be waived, as provided in IRP Audit Procedures Manual Section 601.3.

For **field audits**, the auditor will contact the registrant by telephone to arrange an audit. An audit notification letter is sent to the registrant to confirm the audit commencement date, the registration year(s) to be audited, the location where the audit will take place, the types of records to be examined, and the person(s) conducting the audit.

For **in-house audits**, the auditor may not notify the registrant by telephone. An audit notification letter is sent to the registrant regarding the registration year(s) to be audited, the types of records to be examined, the due date for the submission of records, and other information regarding the audit.

Audit notification letters are sent by certified mail to the last known mailing address on the department registration records and are considered received, when delivered. It is the responsibility of the registrant to ensure that the business and mailing addresses are correct and current, and to promptly notify the IRP Operations Section whenever there is an address change.

### 9.030 Internal Control Questionnaire

An internal control questionnaire is mailed to the registrant along with the audit notification letter. The registrant is to complete the questionnaire and return it to the auditor by the specified due date.

This document provides an opportunity to the registrant to evaluate its recordkeeping and reporting procedures, and enables the auditor to gain an understanding of the registrant's distance reporting system, equipment registration practice, and internal control structure.

The registrant's internal controls may be deemed inadequate or unacceptable if the questionnaire is not returned or not properly filled out.

## **CHAPTER 9 AUDITS AND RECORDKEEPING**

### **9.035 Travel Expenses**

Pursuant to CVC Section 8057(b), the registrant may be required to reimburse the department for the auditor's per diem and actual travel expenses incurred under certain conditions as determined by the department.

In-house audits involve no travel expenses. Under the department's current administrative policy, the registrant will not be charged for the travel cost for a field audit conducted in California, except:

- A return trip is required to complete the fieldwork because the required records were unavailable or inadequate for audit purposes.
- The registrant requests the audit to take place at its place of business or another location in lieu of sending the records to the department's headquarters in Sacramento, when it is deemed reasonable and cost effective for the department to conduct an in-house audit due to the small size of the fleet or other reasons.

California-based registrants shall reimburse the department for the auditor's per diem and actual travel expenses for audits conducted outside California.

### **9.040 Notification of Audit Results to Registrants**

Upon completion of an audit, an audit report is issued to the registrant (and the designated agent). The audit report, when mailed to the last known mailing address of the registrant as it appears on the department's records, is considered sufficient notification of the audit results whether the report is received or not.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.045 Registrant's Options Upon Receipt of Audit Report

Under CVC Section 8202 and IRP Section 1608, the registrant shall have **30 days** from the issuance of the audit report to:

- Pay the netted assessment in full to the department;
- Request a reevaluation (reexamination) of the audit results and provide documents not previously made available; or
- File a written appeal to contest the audit results.

Requests to modify the audit findings must be made in writing within the 30-day statutory deadline, with supporting documentation. Records received after the 30-day period will not be accepted for reevaluation.

If the registrant requests a reevaluation of the audit results and provides additional records to the department on time, the department will notify the registrant of the result of its reevaluation upon completion, including any audit modifications and/or fee adjustments. The registrant will have **20 days** from the date of this notice to pay any audit assessment due or request a hearing, pursuant to CVC Section 8202(b).

Audit appeals must be made in writing to the IRP Operations Section (Audit Collections) within the time period specified in the audit report or notification of the reevaluation result, and must include the areas of disagreement and specific reasons for a hearing.

If the audit resulted in a net assessment, the registrant shall pay the uncontested portion of the audit assessment.

In the appeal, California as the base jurisdiction shall act on behalf of all affected jurisdictions.

Non-receipt of or refusal to accept the audit report shall not extend the deadline allowed for payment of the assessment or request for a reevaluation or hearing.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.050 Netting of Audit Fee Adjustments

In accordance with IRP Section 1704, "**Netting of Audit Adjustments**," all underpayments and overpayments of fees resulting from the audit are netted. California will collect the net underpayment from the registrant or refund the net overpayment to the registrant.

**IRP Section 1704 also provides, "If the records are not made available, or if the records made available are inadequate for an examination, any credits calculated for jurisdictions which are caused by the inadequacy of records will not be reflected in the fees netted under IRP Article XVI."**

California does not calculate, bill, or collect penalties, interest, or any other charges for other jurisdictions. Therefore, the registrant may receive billings from other jurisdictions for such charges.

All affected member jurisdictions will be notified of the results of the audit and will have 45 days from the date of the report to appeal or notify California and the registrant of their intent to reexamine records. Therefore, the net fee adjustment may change pending acceptance of the audit findings by other jurisdictions.

### 9.055 Interest and Penalties on Underpaid California Fees

In accordance with CVC Section 8058(a), interest is assessed on the underpaid fees due, at the rate of **1 percent per month** of the underpaid portion of the California fees, commencing on the date the underpaid portion of the fees were originally due and accruing monthly until paid. This interest will continue to accrue despite any dispute or hearing regarding the underpaid fees. If the audit is under appeal or reevaluation, the registrant may pay the underpaid portion of the California fees as determined in the audit, to avoid accumulation of additional interest.

In accordance with CVC Section 8058(c), a penalty of \$50 or **10 percent** is assessed on any underpaid California fees, whichever is greater, commencing on the date the underpaid fees were determined to be due.

## **CHAPTER 9 AUDITS AND RECORDKEEPING**

### **9.060 Lien, Suspension of Operating Authority, and Seizure of Vehicles**

Pursuant to CVC Section 8201(a), unpaid fees constitute a lien on all vehicles operated as part of the fleet and on any other fleet vehicles operated by the registrant. The lien will follow the vehicles regardless of their removal or separation from the fleet. Liens arising as the result of an audit expire four years from the date the registration fees first become due unless perfected. Perfected liens shall expire five years from the date of the perfection.

The audit report also serves as a lien notice to the registrant if the audit results in net underpaid fees. The lien is perfected upon: (1) the mailing of a Lien Perfection Notice; and (2) the recording of the lien on the department's electronic vehicle registration records. Such lien may be perfected in the form of a Vehicle License and Titling (VLT) stop on the vehicle identification number.

Pursuant to CVC Section 8203(a), when a lien is perfected and the opportunity to submit additional documentation or request a hearing has passed, the department may suspend or cancel the operating privileges of the fleet. When the suspension takes effect, the department may seize a sufficient number of vehicles to satisfy the lien without further notice to the registrant. Upon full payment of the delinquent fees, interest and penalties, the recorded lien will be removed from the department's vehicle registration database. If you have any questions regarding liens, payments, collections, suspension, and seizure of sale of vehicles, please contact:

Department of Motor Vehicles  
Motor Carrier Division  
IRP Operations Section– Audit Collections  
P. O. Box 932320, M/S H160  
Sacramento, CA 94232-3200  
Phone No.: (916) 657-5798

### **9.065 Recordkeeping**

The registrant must maintain adequate records to substantiate the reported distance traveled and purchase prices and dates of all apportioned power units, and provide such records for examination with 30 days from the date of the department's request for such records, in accordance with the IRP Article XV and CVC Section 8057.

Records provided for audit must be complete, well organized, and readily support the reported vehicle and distance information on the applications. Registrants apportioning leased/rental vehicles or owner-operators' vehicles under their names are responsible for substantiating vehicle and distance information of such vehicles.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.070 Record Retention and Preservation

- Distance Records

In accordance with IRP Section 1500 and CVC Section 8057(a), any registrant whose application for apportioned registration has been accepted shall preserve the records on which it is based for a period of three years after the close of the registration year. That means, for registration year 2008, the registrant must preserve distance records for the reporting periods from **July 1, 2003 through June 30, 2007** on which the 2005, 2006, 2007 and 2008 apportioned registration applications are based.

- Cost Records

In accordance with CVC Section 8057(a), vehicle cost records must be preserved for **four years** after the close of the registration year in which the vehicle was deleted.

- Weight Records

Certified unladen weight certificates must be retained for power units operating at a gross or combined gross weight of 10,000 pounds or less for **four years** after the close of the registration year in which the vehicle was deleted from the fleet.

### 9.075 Failure to Maintain or Provide Adequate Records for Audit

If the records are not made available, or if the records made available are inadequate for examination purposes, an assessment of liability may be imposed in accordance with IRP Article XV.

If an estimate of the registrant's true liability cannot be determined, the registrant may be assessed **100% California fees**, plus interest and penalties, as provided in CVC Section 8057 (b).

**Any credits calculated for other affected jurisdictions which are caused by the inadequacy of records will not be netted under IRP Section 1704.**

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.080 Purchase Price and Date

The **Vehicle License Fee (VLF)** portion of the California fees is based on the purchase price and purchase date of the vehicle.

In accordance with California Revenue and Taxation Code Section 10753, the reportable purchase price must reflect the cost price to the current owner. It includes the delivery charge, **federal excise tax**, and value of any accessories (e.g., refrigeration unit, lift gate, etc.) added to the vehicle, any cash that changed hands, and trade-in and other considerations, but excludes license fees, extended warranty, interest or finance charges, and any sales or local tax.

The reportable purchase price of a leased vehicle transferred from the lessor to the lessee at the termination of the lease is based on the original capitalized cost price and lease date shown on the lease document to the lessee.

### 9.085 Acceptable Vehicle Cost Documents

**All reported purchase prices and dates on which California fees are based must be substantiated by acceptable documentation.** Failure to substantiate any reported purchase prices and/or dates may result in higher VLF classifications, as determined by the department.

Acceptable documentation includes the certificate of cost and **purchase invoice**. The auditor may also request other documents such as equipment depreciation schedules to help determine the reportable purchase price.

The following items are considered insufficient as sole documentation for determination of the purchase price because of the absence of a detailed breakdown of the total cost price:

- Customer's copy of dealer's report of sale
- Security agreement
- Lease agreement
- Canceled check



## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.090 Individual Vehicle Distance Records (IVDRS)

An acceptable source document to verify jurisdiction and fleet distance (miles) is the **Individual Vehicle Distance Record (IVDR)**. It is a document completed by the driver for each trip made by an apportioned vehicle. (Refer to sample form in Chapter 13, IRP Forms and Documents.)

The common IVDRs are the **driver's trip sheets or reports**.

These documents are for recording trip and distance information of individual apportioned vehicles, and help the auditor determine the accuracy and validity of total trip distance and allocation of jurisdiction distance.

California requires the recording of the following information on an IVDR:

1. Registrant's name
2. Fleet number (if the registrant has more than one fleet)
3. Power unit and trailer numbers
4. Trip Dates (beginning and ending)
5. Trip origin and destination points
6. Intermediate trip stops
7. Route or highway numbers traveled
8. Beginning and ending **odometer/hubodometer readings** of the trip
9. Total trip distance traveled
10. Distance traveled by jurisdiction
11. Driver's name or ID

If the jurisdiction and fleet distance cannot be accurately determined due to the absence or inadequacy of information on the IVDRs, the registrant may be required to reconstruct the records or provide additional documentation to substantiate the reported distance.

The IVDRs provide the basis for the reported jurisdiction and fleet distance. The information recorded on the IVDRs must be accurate, complete, legible, and verifiable. Failure to maintain or make the requested IVDRs available for audit provides grounds for denial of netting of credits calculated and assessment of 100% California fees, plus applicable interest and penalties.

## **CHAPTER 9 AUDITS AND RECORDKEEPING**

### **9.095 Accountable Vehicle Distance**

Accountable distance includes the following distance generated by the power units apportioned in the fleet:

- Interjurisdictional and intrajurisdictional distance
- Loaded and empty distance
- Deadhead and/or bobtail distance
- Toll and non-toll distance
- Off-highway distance
- Trip permit distance

It also includes distance accrued by apportioned vehicles trip leased to other carriers or individuals.

All actual distance accumulated by the fleet of apportioned vehicles during the July 1 through June 30 reporting period must be reported as “actual” on the renewal application and audited as such, under IRP Section 400, which states, “Upon renewal, the registrant shall be required to report and use actual distance operated during the preceding year (or portion of the preceding year)”.

If the fleet was apportioned on or after April 1 in the preceding year, estimated distance must be reported on the renewal application.

### **9.100 Maintenance of IVDRs**

The IVDRs must be maintained so the continuous movement of each apportioned vehicle can be audited. Registrants must maintain records in sufficient detail to account for all vehicle movements.

If the audit reveals any unusual time lapses, additional records such as fuel receipts, dispatch logs and equipment maintenance files may be needed to help determine if all distances have been properly recorded.

Failure to substantiate idle or down time for any apportioned units may result in the estimation of distance based on the registrant’s average daily distance per vehicle or a method determined appropriate by the auditor.

Effort will be made to allocate any unrecorded distance identified in the audit among the affected jurisdictions. In the absence of records showing travel outside California, the unrecorded distance may be allocated to California.

## **CHAPTER 9 AUDITS AND RECORDKEEPING**

### **9.105 Trip Distance and Odometer Readings**

**California requires the recording of odometer or hubodometer readings on the IVDRs.** Proper and consistent use of these readings assures full reporting of distance generated by the individual apportioned power units. To ensure continuity of the odometer or hubodometer readings, the beginning reading of a trip must match the ending reading of the previous trip.

The registrant may use other methods to determine distance, including jurisdiction highway maps, distance software, Household Goods Carrier's Bureau Mileage Guide, and commercial road atlas. However, these other sources do not exempt the registrant from maintaining odometer or hubodometer readings for each apportioned vehicle.

Reported distance based on a map or distance software must reflect the routes actually taken and local distance driven. Odometer or hubodometer readings provide a reliable source to account for and record local distance. During an audit, total distance derived from the recorded odometer readings is compared with recorded total distance for individual vehicles. Any material variances between the two sources are analyzed and adjusted if necessary.

The registrant must ensure that the odometer or hubodometer is in good working condition. Any broken device must be repaired or replaced in a timely manner. Accountability of vehicle distance must continue despite the breakdown of the odometer or hubodometer. This can be accomplished through the use of map miles on the IVDRs.

### **9.110 On-Board Recording Device**

On-board recording device may be used in lieu of or in addition to handwritten trip reports. Such device must meet the requirements outlined in this handbook and the IRP Audit Procedures Manual.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.115 Filing and Organization of IVDRs

Source documents used to support the monthly summaries shall be filed in **trip date sequence by power unit number** to provide a ready accountability of distance generated by individual apportioned power units. Documents batched by customer name, driver's name or manifest number require reorganization of the records and increase the audit time, and they may be returned to the registrant for reconstruction.

If batching the documents in chronological trip date order by equipment number is not feasible, the registrant should prepare and maintain a vehicle continuity report or a monthly listing of trips by equipment number, with adequate cross referencing, beginning and ending odometer or hubodometer readings, and other information necessary for purposes of verifying the reported distance by individual apportioned power units.

### 9.120 Monthly Summaries

From the information recorded on the IVDRs, the registrant must prepare and maintain a monthly summary to recap the total distance traveled by each apportioned power unit in each jurisdiction during the calendar month **by fleet, by jurisdiction, and by equipment number**. (Refer to sample form in Chapter 13, IRP Forms and Documents.)

**Summaries will not be accepted at face value in an audit, without a sufficient testing of the registrant's internal controls and an adequate examination of the IVDRs.**

To be acceptable for audit, monthly summaries must be fully supported by the IVDRs and reasonably reflect the months in which the trips were made. Monthly summaries must also provide ready support for the quarterly and yearly summaries.

Monthly summaries are essential documents in IRP audits. It is not the auditor's job to reconstruct monthly vehicle and fleet summaries from the IVDRs. If source documents are provided for audit without the required monthly summaries, the records will be deemed inadequate or unacceptable for audit purposes, and then returned to the registrant.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.125 Quarterly Summaries

From the monthly summaries, the registrant must prepare and maintain a quarterly summary that recaps, by equipment number, by jurisdiction and by fleet, the total distance traveled in each jurisdiction during each calendar quarter.

Preparation of quarterly summaries does not relieve the registrant of the responsibility to prepare and maintain monthly summaries in the manner as described in Chapter 9, Section 120.

### 9.130 Yearly Summary

The registrant must prepare a yearly summary that recaps the total distance traveled in each jurisdiction during the preceding **July 1 through June 30 period by fleet, by month/quarter, and by jurisdiction.** (Refer to sample form in Chapter 13, IRP Forms and Documents.)

The registrant shall use the yearly summary to report the jurisdiction and fleet distance on Schedule B. Therefore, the fleet distance in the yearly summary and Schedule B should be identical, except for those jurisdictions in which the fleet had no actual distance.

The department recommends the preparation of a yearly summary that recaps the total distance traveled in each jurisdiction during the preceding year by fleet, by equipment number, and by jurisdiction. This document provides helpful yearly operational information for each apportioned vehicle. (Refer to sample form in Chapter 13, IRP Forms and Documents.)

### 9.135 Registrants with Multiple Fleets

Registrants operating more than one apportioned fleet must prepare and maintain **separate** IVDRs, monthly summaries, and yearly recaps for the respective fleets.

### 9.140 Trip Permits and Evidence of Registration

All distance operated by apportioned vehicles with the use of trip permits during the preceding year shall be reported on the next year's application for apportioned registration. Registrants must retain and provide copies of the trip permits to support the distance accrued by the apportioned vehicles in an audit.

In accordance with IRP Section 1406, trip permits shall not be used to evade or circumvent the agreement.

## CHAPTER 9 AUDITS AND RECORDKEEPING

### 9.145 Interjurisdictional Travel

Only commercial vehicles that travel interstate or “intended” to travel interstate are eligible for apportioned registration. “Intent” will be established by records of travel and verifiable contracts.

Vehicles traveling solely in California or in another jurisdiction are not eligible for apportioned registration and are subject to 100% regular registration fees.

A vehicle is deemed to be eligible for apportioned registration if it was operated in two or more jurisdictions in the July 1 through June 30 reporting period.

### 9.150 Estimated Distance

**Estimated distance is allowed for jurisdictions in which the fleet had no vehicle movement in the reporting period, or the fleet was first apportioned on or after April 1 of the preceding year.**

**All estimates must be clearly identified as such on the original and renewal applications.**

When a fleet has reportable distance for any jurisdictions during the reporting period, the reported distance must be based on actual vehicle operations for the jurisdictions involved and identified as actual on the application. This applies to situations involving changes in fleet vehicles, base jurisdictions, IRP account numbers, business names, business ownership, and/or business locations.

The department has discretion in determining the manner in which distance should be reported, and may audit apportioned registration applications for improper use of estimated distance.

IRP Audit Procedures Manual Section 704.1 states, in part, “...if estimated distance for a registrant is granted by the base jurisdiction, and it is later discovered that actual distance from apportioned operations was traveled in the estimated jurisdiction, the auditor may convert the estimated distance to actual distance, to ensure proper fee payment.”

Further, IRP Audit Procedures Manual Section 704.6 states, “If the registrant chooses, for a second or subsequent registration year, to apportion in member jurisdiction on the basis of estimated distance traveled (where actual distance was traveled in that jurisdiction in the preceding year), the base jurisdiction must adjust the 100% apportionment distribution formula to exclude the estimated distance traveled pursuant to Section 400 of the International Registration Plan. This will, in effect, cause the estimated fees to be calculated in excess of 100%.”

## **CHAPTER 9 AUDITS AND RECORDKEEPING**

### **9.155 Unregistered or Improperly Registered Vehicles**

CVC Section 4000 requires proper registration and payment of such fees for vehicles operating or standing upon California streets and highways, except for those vehicles that are specifically exempt by law.

California's apportioned registration expires at midnight on December 31, and California has **no grace period** in vehicle registration. Proper California vehicle registration is required for any vehicles operating in California, except those vehicles that are exempt by law.

California fees, interest, and penalties will be assessed on vehicles that are found to have operated in California without proper vehicle registration.

### **9.160 Resident Registering Vehicle in Foreign Jurisdiction**

CVC Section 8804 provides that a person is guilty of misdemeanor if operating any foreign plated vehicle in our state without the payment of appropriate California fees while being a resident of our state.

### **9.165 Additional Information**

It is the department's intent to carry out the IRP audit program fairly and uniformly, with minimum disruption to the registrant's business and at the lowest cost consistent with good audit practices.

If you have questions or comments about the department's IRP audit program, please contact:

Department of Motor Vehicles  
Audits Office – IRP Audit Section, MS H157  
P.O. Box 932314  
Sacramento, CA 94232-3140  
Phone No: (916) 657-7576